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SUBJECT: Russian Embassy Explains Slow Russia-Belarus Integration

Ref: Minsk 1425

¶1. Summary: While speaking to investment forum participants in Mogilev on November 17 (reftel), Trade Counselor of the Russian Embassy in Minsk Evgeniy Novozhilov explained why he believed economic integration of Belarus and Russia, as envisaged in the union state, has been slow. He blamed Belarus for not carrying out free market reforms, for resistance in aligning its laws with Russia's, for implementing those laws that have been aligned differently than in Russia, and for being ruled by presidential decree, rather than by law. He thinks these problems could be solved when Belarus adopts the Russian ruble, but stated this event is also delayed. End summary.

¶2. At an investment conference in Mogilev on November 17, Russian Trade Counselor Evgeniy Novozhilov, who had been scheduled to talk about the economic benefits of the Belarus-Russia union, instead explained to the audience why economic union has been so slow. First, Belarus and Russia have vastly different conceptions of how to manage an economy. Novozhilov explained that Russia facilitates the free market and has reformed accordingly. Belarus still believes in heavy state intervention in the economy. As a result, several fundamental differences have appeared between the two economies. Novozhilov cited as an example that Belarus and Russia treat privatization and taxation in very different ways.

¶3. Russia and Belarus are attempting in many cases to coordinate and streamline their economic laws. However, these actions are not systematic and are rather sporadic. Novozhilov maintained these attempts to coordinate the laws are not taken with any view of the bigger picture. Therefore, when one law is changed, it often contradicts other laws. Furthermore, Novozhilov said Belarus often refuses to reform its laws to correspond to Russia's.

¶4. Even when the laws are unified, government agencies in Minsk and Moscow interpret the laws differently (stemming from their differing views of the economy and the free market). The Belarusian and Russian governments draft very different regulations and instructions for even the unified laws, often contradicting each other and making the laws work in opposite directions in the two countries.

¶5. Novozhilov stressed that the Russian economy is ruled by laws, while the Belarusian economy is ruled primarily by presidential edicts and decrees. He argued that decrees are stronger than laws and are almost impossible to conform with Russian economic laws. Moreover, Russia's legal system tends to be more stable, as Lukashenko frequently issues new decrees changing how the Belarusian economy operates.

¶6. Novozhilov said he believes the introduction of the Russian ruble as the single currency of the Russian-Belarus union would help unify the two economies. He explained that introduction of

the Russian ruble in Belarus, however, has stalled over the countries' different approaches to the establishment of a single money emission center. Chiefly, Minsk would like the power to issue rubles, while Moscow wants to be the sole source.

17. Comment: Novozhilov's comments were at variance with the positive rhetoric on investment and integration routinely voiced by Belarusian authorities. Emboffs were surprised to hear a Russian diplomat, ostensibly asked to speak on the economic benefits of union, so openly critical of Russia's union partner. His comments likely reveal the true state of Belarusian-Russian integration efforts. Despite the positive spin and ten years of supposed unification, many barriers to economic, let alone political union, remain.

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